

Cyprus: the European land of sunny opportunities

Cyprus has always played a major role as a trading and business centre due to its strategic location at the crossroads of three continents. In more recent times the implementation of wide-ranging structural reforms has led to the creation of new business opportunities for dynamic investors. The island is today the European Union's south-easternmost outpost still boasting a healthy economy, a favorable tax regime, an advanced commercial infrastructure, a conducive business environment, a liberal investment regime and a highly qualified manpower.

The development of the commercial infrastructure in Cyprus is mainly attributed to the rapidly expanding role of the services sector in the economy. This reflects the island's success in moving away from economic activities dependent on agriculture and traditional manufacturing onto a high-growth path based on the provision of high value added professional services.

Cyprus has developed into a bridge of cooperation and may be used as not only an effective jurisdiction for routing investments within the European Union by third country investors but also as a portal for investment outside the European Union, particularly into the rapidly growing economies of Central and Eastern Europe, India and China. It is not therefore surprising that Cyprus is considered as "the gateway of Europe".

Introduction

A key trading center for over a thousand years, Cyprus' strategic geographic position at the confluence of Europe, Asia and Africa gives it an overwhelming advantage as an international business center. The island has long recognized its potential to service global business and has created a business environment specifically designed to maximize its advantages well beyond geographic location. With a corporate tax rate that remains the lowest in the European Union, a wide network of over 40 double taxation treaties, a highly educated, multi-lingual workforce, state-of-the-art telecommunications framework and world class business services, the island now hosts companies from across the world. These include companies from EU countries, Russia, Ukraine, the United States, Canada, India and the Arab world, while new economy registrations increased at the phenomenal rate of 39.9 percent between 2005 and 2006.

As long ago as 1960s, the country looked ahead and saw that knowledge and information would be the drivers of sustainable economic growth. Following up insight with action, Cyprus then invested intensively in the key pillars of the knowledge economy: skills, infrastructure and a services-based mindset.

Despite the current global economic and financial crisis, Cyprus is still a vibrant business center, offering an all-round package of services, from banking and accounting, to sophisticated telecommunications and technologies, to world class professionals and highly qualified workforce. Cyprus offers significant tax advantages to companies looking to reduce their overall tax burden, whether they do so by using the island as a springboard from which to launch their products or services into regional markets, or whether they choose to use Cyprus to set up a holding company for their international operations.

Main Advantages

Cyprus has a flat rate of corporate tax 10 percent. This remains the lowest tax rate in the European Union which, when coupled with its large network of double taxation treaties and other tax-related measures, ensures maximum tax efficiency and minimum tax leakage for Cypriot based companies. Supporting this fiscal advantage, Cyprus also offers a multi-lingual workforce that is one of the best educated in the world, with 4 percent of 25 to 29 year olds holding university degrees.

As one of the island's most valuable resources, the Cypriot workforce is multi-lingual, with Greek as its mother tongue, English as the language of business and commerce and French and German widely spoken especially by graduates of overseas universities.

The island's business infrastructure is well-developed and sophisticated, and the regulatory environment is familiar, transparent and welcoming towards investment from overseas. Cyprus has a strong legal system based on English common law and amended over the last few years to ensure it is in line with EU regulations. This means that international companies are dealing with a familiar and well-understood system.

A European Union and eurozone member fully complying with OECD requirements



As a European member since 2004, Cyprus' tax system is fully in line with European Union law, as are all the islands labor laws and market policies. The island adopted the euro as its national currency in January 2008, a move that was widely expected to make the country even more attractive as an investment location. The elimination of currency transaction costs, the ability to conduct business throughout the eurozone with minimum disruption and the enhancement of macroeconomic stability and investor confidence are the main benefits of euro adoption cited by analysts and the business community in general.

Cyprus is among the few countries worldwide that have already fully complied with the Organization for Economic Cooperation and Development (OECD) internationally agreed tax standard. Just after the World Summit Meeting in London on 2nd April 2009, OECD published the official list of countries who have been surveyed by OECD in implementing the internationally agreed Tax Standard. Cyprus features among the jurisdictions that have substantially implemented the internationally agreed tax standard. (see appendix I).

Growing services sector

Long a key component in Cyprus' economy, the services sector has grown rapidly since the 1990s, and now contributes over 75 percent of the island's total GDP. Already employing around 72 percent of the workforce, a 2006 Euro stat study demonstrated that in the five years previous Cyprus had shown the greatest increase of employment in hi-tech, knowledge-intensive industries among all member states of the European Union.

This development is in line with successive government's ambitions for the island: as Cyprus' biggest natural resource, its highly educated workforce was recognized as the key component for sustainable economic success. Today, Cyprus has one of the best-educated populations in Europe, and has transformed its economy to become a major player in facilitating the exchange of ideas, services and support among professionals in Eastern Europe, the Middle East, the European Union and North America.

Holding Companies



business.

Cyprus' international reputation has increased significantly in recent years. With the lowest tax rate in the European Union, a tax system that has been approved by both the EU and the OECD, Cyprus has become one of the most attractive international finance and business centers in the region. Investor activities include international business structures such as holding companies, finance companies, investment funds and head office operations, amongst others, all of which are able to leverage the many benefits being located in Cyprus brings their

The most prevalent activities include using Cyprus as a holding company and finance company jurisdiction. Holding and finance companies enjoy numerous benefits under Cypriot law, including the low rate of 10 percent income tax on company profits, the favorable withholding tax provisions of the Cypriot double taxation treaties network, the advantageous repatriation provisions under Cypriot tax law which allows payment of dividend, interest and royalties without payment of withholding tax, the exemption from tax of trading gains and capital gains made by a Cypriot holding company from the sale of shares in a foreign subsidiary and many others.

Holding companies are attracted to Cyprus by a number of factors, not all tax related. The island offers a unique Mediterranean lifestyle and exceptional quality of life, a balmy climate in an excellent location, state-of-the-art facilities and some of the best professionals in Europe as human resource availability.

Professional Services



The Cypriot professional services sector is able to support all aspects of business, from accounting, banking, international business and financial services, business consulting, computing and information technology, design, education, engineering, legal services, marine and shipping management, private health care, filming, risk management, sales and marketing, travel and tourism, real estate and conferencing.

Professional fees charged for financial and business services are extremely competitive and the quality of service offered is internationally recognized. The high level of education, combined with the high ethics, standards and the excellent training that exist in Cyprus, are confirmed by the fact that the Institute of Chartered Accountants in England and Wales (ICAEW) and the Chartered Institute of Management Accountants (CIMA) have chosen Cyprus as the first country in the world outside the UK to train ICAEW and CIMA accountants.

World Class Communications

In servicing Eastern and Western clients alike, Cyprus has complemented its geographic proximity with world-class telecommunications services, further enhancing the services sector's reach and accessibility. The country has a fully digital national network, along with reliable, high-speed connectivity to other modern economies via satellite and fiber optic submarine cable systems and international call rates are the cheapest in the OECD, as shown in a recent Teligen country cost comparison.

International Connections

Cyprus enjoys business-friendly time zones that synchronize neatly with business hours on other continents, enabling international companies to stay connected with every corner of the world. From Cyprus, it is possible to do business with the East in the morning, Europe throughout the day and with the West in the afternoon.



The compact local infrastructure is also ideally suited for business people who need to get things done. Thanks to its modern road network, extensive port facilities and two international airports, travel and transport in and beyond Cyprus is fast, efficient and economical. Excellent and convenient air routes to the Middle East and Europe add to its advantages as a base from which to conduct business in both regions.

Banking System and Finance



Cyprus's banking and financial sectors are sound and well run, with financial institutions offering a full range of local, national and international services to individual and corporate clients. Service offerings include insurance, mutual fund management, investment and consulting and asset management. More than 40 international banks have a presence in Cyprus, along with Cyprus's local banks three of which are listed on the Cyprus Stock Exchange. At a recent meeting of the Governor of the Central Bank of Cyprus with representatives of Fitch Ratings, one of the well known international rating agencies, held in Nicosia in February 2009, the parties reached the conclusion that the economy of Cyprus appears to be affected by the global financial crisis but to a lesser degree compared to all other European economies. An official press release by the Central Bank of Cyprus states that "important factors that contributed to this development were the proper supervision of Cyprus' banking system and the island's accession to the Eurozone."

Persuasive Package

Cyprus's strategic location at the crossroads of three continents has been a major factor in shaping its history throughout the centuries and its development into an international business center in recent years. European Union and eurozone membership have further enhanced the island's attractiveness and today Cyprus is being transformed into a key outpost in the Eastern Mediterranean, serving as a springboard for investments in Europe, Africa and Asia.

The island, with the highest percentage of university graduates in Europe, superb infrastructure, vibrant free market economy, low corporate tax rate of 10 percent, membership of the REU and the eurozone, and long-standing relations with Central and Eastern Europe as well as the Middle East, famously enjoys more than 300 days of sunshine every year and an enviable quality of life. With all these elements firmly in place, Cyprus continues to be ideally positioned to expand its reputation as an international center of business excellence.

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